Colorado Legislative Council Staff FISCAL IMPACT STATEMENT

BALLOT TITLE: SHALL COLORADO STATE LAW REQUIRE THAT IN EACH STATE FISCAL YEAR A SCHOOL DISTRICT SPEND AT LEAST SIXTY-FIVE PERCENT OF ITS OPERATIONAL EXPENDITURES ON SERVICES THAT DIRECTLY AFFECT STUDENT ACHIEVEMENT?

Fiscal Impact Summary	FY 2006/07	FY 2007/08	
State Revenues			
State Expenditures General Fund - School Finance	\$21,045	\$61,799	
FTE Position Change	0.0 FTE	0.0 FTE	
Other State Impact: None			
Effective Date: Upon voter approval; FY 2007-08 is first year of required compliance.			

Appropriation Summary for FY 2006/07: Will be addressed through the budget process.

Local Government Impact: School districts will have to track their spending with greater detail, possibly reallocate funds, and file a budget form with the Colorado Department of Education.

Summary of Referendum J

Referendum J makes two changes to school district budgeting. First, it requires that at least 65 percent of operational expenditures go to services directly affecting student achievement. Second, it requires all school districts to send their budgets to the Department of Education in a standard format.

Determination of whether a school district is spending 65 percent of its operational expenditures on services that directly affect student achievement will be made using end-of-year financial audits of school budgets (not the budget provided by the school district discussed in the previous paragraph). Referendum J provides a definition of operational expenditures that excludes several types of expenses. The proposal also establishes that expenses considered to affect student achievement directly include:

- personnel at the schools responsible for teaching, school administration, student support services, and other support staff;
- supplies and equipment used for instructional purposes;
- instructional services provided to the school district from outside programs; and
- extracurricular activities including, but not limited to, athletics.

Expenses that are not considered to have a direct affect on student achievement include:

- school district office services such as accounting, budgeting, and other district-wide operational tasks;
- salaries and benefits of central school district personnel related to general school district administration; and
- operations and maintenance of facilities.

The 65 percent requirement must be met by all school districts unless they: (1) obtain a waiver from the state board, or (2) hold a public election on the matter in which the majority of the school district's voters allow an exemption. The State Board of Education determines school district compliance with the operational expenditure requirements. Before December 31st, the state board shall prepare a report for the legislature that lists the school districts (not subject to an exemption or waiver) that failed to meet the requirements of Referendum J. School districts that fail to comply are required to work towards the 65 percent by increasing their operational expenditures at least 2 percent each year until they satisfy the requirements of the referendum. The legislature is authorized to impose sanctions on participating school districts that do not comply with the proposal.

The standard budget format will be developed by the state board by July 1, 2007, and will remain consistent and summarize revenues by source and expenditures by program, function, and object. Beginning in 2007, school districts will be required to submit their budgets to the Department of Education by December 31st.

State Expenditures

State spending is expected to increase by \$25,245 in FY 2006-07 and \$61,799 in FY 2007-08. Costs are incurred by the Department of Education to support the collection of school district budgets, to determine school district compliance with the referendum, and to monitor and assist districts that are not in compliance. These costs represent the hiring of a senior consultant for 3 months in the first year and full time thereafter.

The department currently has access to the expenditure data required to determine the fund split for each school district. The proposal would require the addition of a senior consultant to work with the state board and school districts to properly identify and track school district expenditures. The new staff would also have to work with the districts in cases of non-compliance and waiver decisions. Enhancing the current systems to draw information from the financial audit data to determine the split of operational expenses would require contract programming. Based on an audit conducted on a similar project, roughly \$4,900 of development time is required (70 hours at a contract rate of \$70.00 per hour). Cost components of Referendum J are shown in Table 1.

Starting in FY 2007-08, school districts that do not spend 65 percent of their operational funding on student achievement would need to find ways to meet the requirements of the proposal. This might involve changes at the district level, application for waivers from the state, or an increase in state funding to supplement the district's spending on student achievement.

Table 1 - Total Costs Under Referendum J			
Cost Components	FY 2006-07	FY 2007-08	
Personal Services	\$17,190	\$57,299	
FTE - Senior Consultant (Contract)	0.3	1.0	
Operating and Capital Expenses	3,155	4,500	
Computer Programming	4,900	0	
General Fund Total	\$25,245	\$61,799	

Budget Collection. The collection of school district budgets is assessed as having no cost. To meet the requirement of Referendum J that budgets be collected annually, the state board is required to determine the standard budget format. It is anticipated that this task can be accomplished within existing resources. The Department of Education must also collect and make the district budgets available to the public. The method with which the data must be collected and available to the public affects department costs. This fiscal note assumes that the budgets will be submitted and stored in a paper format - accessible to the public upon request. If this is the case, costs are minimal and can be absorbed within the department's existing resources.

Should an electronic format be desired, costs to the department will increase. In general, storing budget information in an electronic format would require development of a system allowing school districts to input their information, store information, and allow public access to data (most likely an online portal). The department would require additional staff and computer programming to support such a program. There would also be requirements at the local level in order to interface with the state system.

School District Impact

School districts will have to file budget reports with the department on an annual basis. Preparing for these filings would require the school districts to develop a method to take their existing budget practices and fit them into the standard budget format required by the state board. It is expected that this conversion would take two days of work per school district in year one. Future years should take less as the process becomes more routine and simplifications are found. Costs are estimated at \$592 per district for each of the 178 districts in the first year.

Referendum J would compel districts to examine their cost structure and, in many cases, adjust their accounting practices to capture the level of detail required by the proposal. School districts that do not spend 65 percent of their operational funding on student achievement beginning in FY 2007-08 would need to find ways to meet the requirements of the proposal. An investigation of FY 2004-05 data shows that 3 of 178 school districts will be impacted by the requirements of Referendum J. In total, \$1,036,613 would need to be reallocated.